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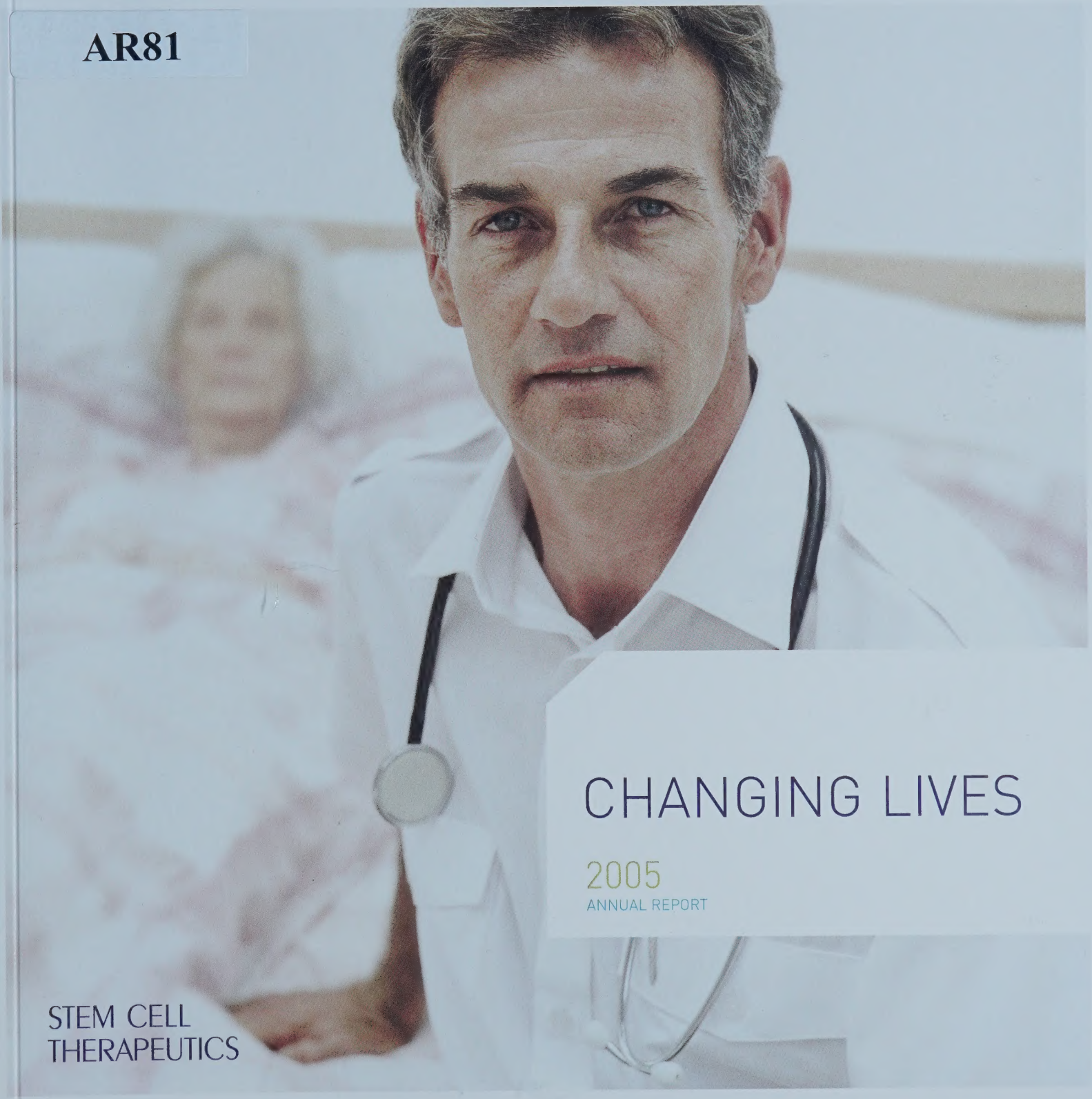
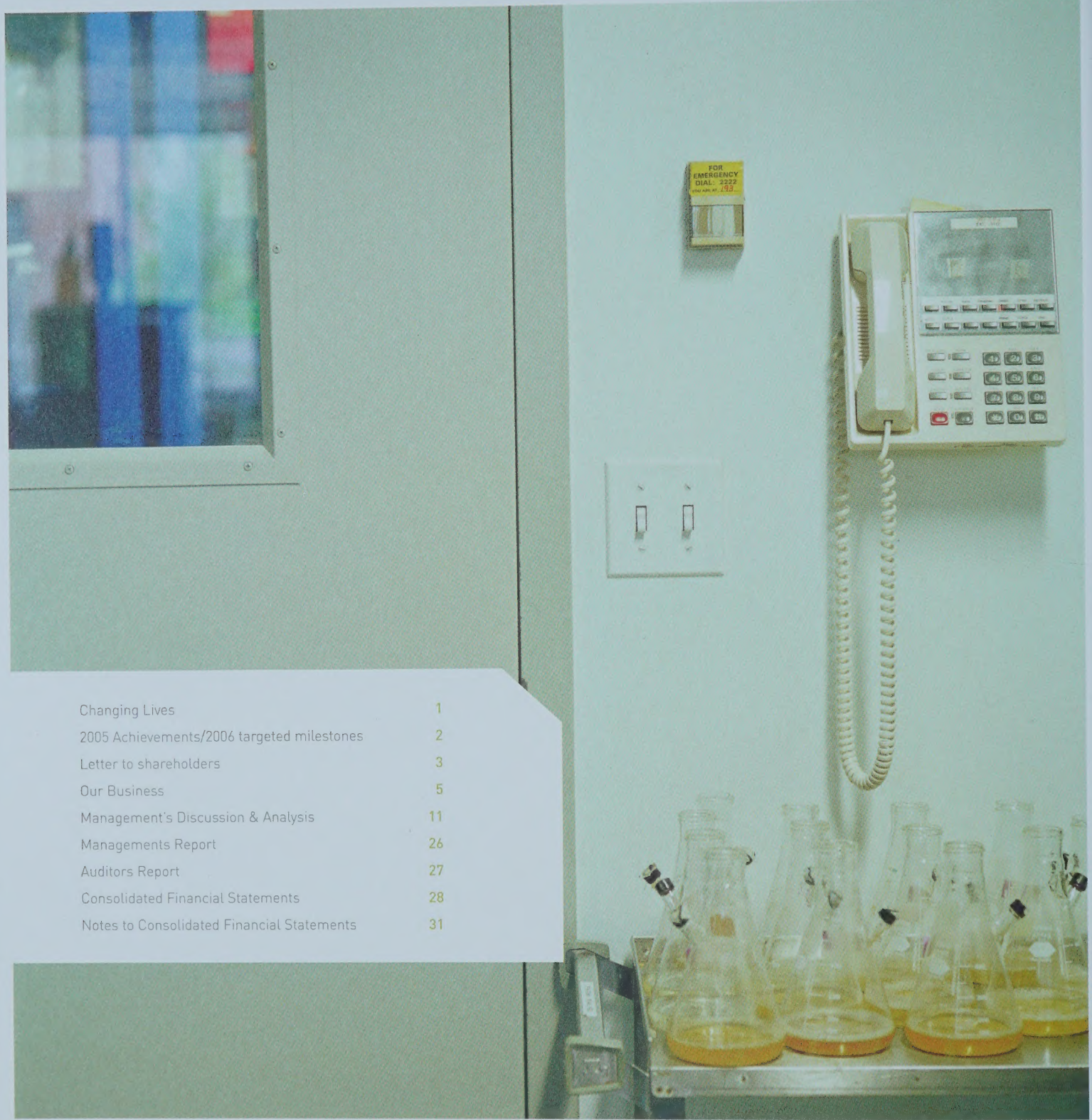


CHANGING LIVES

2005
ANNUAL REPORT

STEM CELL
THERAPEUTICS



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CHANGING LIVES

Today, stroke represents one of the greatest remaining unmet medical needs. The prevalence of stroke is so widespread that there are few who have not been affected, either personally or through a loved one. The impact on health to a victim of stroke is so great that the effects on quality of life can be devastating for both the patient and for those around them, who may become constant, long term caregivers. For the vast majority of the estimated 15,000,000 new stroke patients worldwide each year, there are very limited therapeutic options available.

Stem Cell Therapeutics Corp. is working with great diligence and passion towards the developmentof a new therapy that could be useful for many of these patients. We hope that the successful development of our lead therapy will result in a new treatment paradigm, one which confers the ability to restore those motor and neurological functions that are lost following a stroke. At Stem Cell Therapeutics Corp.our efforts are focused on changing people's lives for the better.

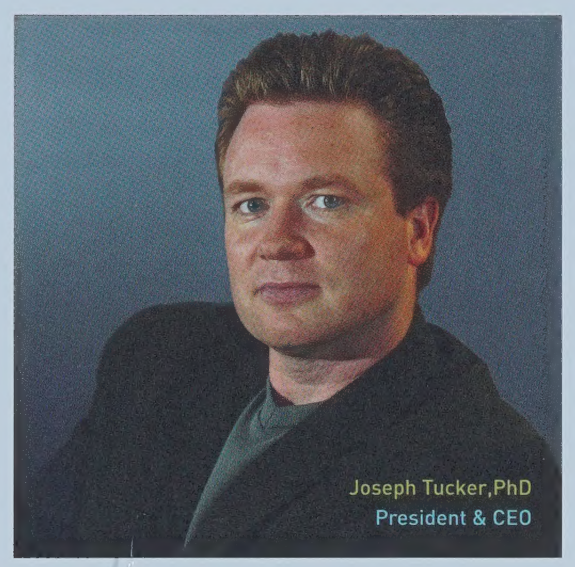
2005 ACHIEVEMENTS

- Completed IPO raising $8.5M
- Identified agents that promote the regrowth of damaged brain tissue (neurogenesis)
- Completed Proof of Concept studies using neurogenesis promoting agents in animal models of stroke
- Demonstrated functional recovery of animals with experimental stroke
- Identified lead therapeutic regimen
- Initiated discussions with potential development partners
- Commenced Phase I clinical study
- Completed dosing of patients in Phase I clinical study

2006 TARGETED MILESTONES

- Complete and report the results of key animal studies that validate the proposed clinical regimen using NTx™-265
- Complete and report the results of the Phase I clinical study
- Commence Phase IIa clinical safety study
- Initiate development of second program
- Prepare for Phase IIb clinical study

LETTER TO SHAREHOLDERS


Joseph Tucker,PhD
President & CEO

2005 was a very busy and productive year for Stem Cell Therapeutics Corp. (SCT) in its vigorous pursuit of numerous important objectives. The year began with the successful closing of our fully subscribed initial public offering, which raised $8.5M. Preclinical research efforts moved forward with the identification of our lead therapeutic regimen, NTx™-265, and the successful completion of a non-clinical proof of concept study that showed treatment with neurogenic agents promotes both brain tissue regeneration and functional recovery in an animal model of stroke.

Significant progress was made in our clinical program this year. In August the Company announced its intention to begin a Phase I clinical study in Denmark to gain greater understanding of the distribution of NTx™-265 regimen drug candidates in the blood stream and cerebrospinal fluid (pharmacokinetic profile) following intramuscular injection. Medicon A/S of Denmark was engaged as a contract research organization to manage our Phase I study, which subsequently received approval by the Danish Regulatory Agency and local Ethics Committee. Dosing of study subjects for the Phase I trial was completed in December of 2005.

The Company also established numerous contacts with large pharmaceutical companies that serve as potential manufacturing, development and marketing partners. SCT's therapeutic approach and development plan were well received, and as a result of these efforts we anticipate that one or more of these relationships will move forward to a successful consummation in the future. As the Company moves rapidly towards the extremely important Phase IIb study, the commitment to our chosen development path increases. Consequently, prior to beginning our Phase IIb clinical study, we plan to formalize to the greatest extent possible our relationship with a Pharmaceutical partner.

Our team was fortified in 2005 by the addition of several outstanding new individuals. Dr. Alan Moore joined us to fill the role of Chief Clinical and Regulatory Officer, responsible for our overall clinical and regulatory strategies. Prior to joining SCT, Dr. Moore held senior clinical development positions in both biotechnology and big pharmaceutical corporations including 23 years with Proctor & Gamble.

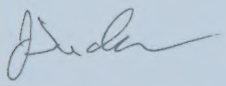
SCT successfully strengthened its Board of Directors in 2005 and early 2006 with two excellent additions,

Dr. James DeMesa and Mr. Ian Brown. Dr. DeMesa has many years experience in the biotechnology industry, and currently serves as the President and CEO of Migenix Inc. Mr. Brown is an independent businessman with many years of financial and capital markets experience.

2006 should represent an inflection year for the Company as the clinical program for NTx™-265 matures, driven by significant, value creating events. To begin with, the results of SCT's Phase I pharmacokinetic clinical study were released in March of 2006. Subsequent to that major achievement, we anticipate initiating a Phase IIa clinical safety study, in which we will be, for the very first time, treating stroke patients with NTx™-265. Initial preparations for a subsequent clinical study, planned to be a Phase IIb, will begin prior to submitting a clinical trial application, anticipated in Q4 2006.

In addition to these exciting clinical developments, we at SCT will be vigorously pursuing another major goal of furthering our relationships with the Company's large potential partners as well as moving towards unveiling a second clinical program to develop alongside of our NTx™-265 flagship. I look forward to an exciting, and very busy, 2006.

Sincerely,



Joseph Tucker, PhD
President & CEO
March 22, 2006

OUR BUSINESS

The key focus of our business strategy at Stem Cell Therapeutics Corp. is to combine leading stem cell science with an efficient development approach. NTx™-265, our flagship therapy, targets a large unmet market with the novel application of drugs that are currently used to treat other diseases. We are focusing the development of our technology platform and intellectual property on the ability to induce a patient's own stem cells to undergo neurogenesis. Neurogenesis is a normal developmental process in which neural stem cells are stimulated to proliferate, migrate and then differentiate into mature, functional neural tissue in the brain.

Our therapeutic approach has been demonstrated to increase the number of innate adult stem cells that grow in place when applied to test animals. This fundamental technology will be further developed to create specific disease treatments for stroke and potentially Huntington's disease, Alzheimer's disease and other neurodegenerative conditions.

OVERVIEW OF NTX™-265 PROGRAM

The human brain contains stem cells that can naturally maintain brain circuitry. SCT uses a traditional drug administration approach to stimulate these latent stem cells to repair damaged brain tissue.

Our most promising regimen of two drugs is called NTx™-265. In an animal model of stroke NTx™-265 accomplishes apparent functional brain repair by prompting surviving brain stem cells to increase in number, migrate to the site of a stroke injury, and then differentiate into neurons where they replace damaged cells. This therapy has demonstrated an improvement in motor skills as measured in a number of tests.

Importantly, NTx™-265 incorporates drugs that are already approved by regulatory authorities as treatments for other conditions. This fact is expected to streamline our development of the therapy.

In addition, the drugs which comprise NTx™-265 have now been demonstrated to reach the brain from the body's bloodstream, possibly allowing our drugs to be administered peripherally rather than by more invasive direct administration into the brain.

While we are very excited by these early indicators, it is important to understand and remember that NTx™-265 must pass a number of additional tests, including demonstration of clinical safety and efficacy sufficient to satisfy regulatory authorities, before it can be made available to patients.

COMPETITIVE ADVANTAGES OF NTX™-265

SCT's lead therapeutic candidate, NTx™-265, is particularly attractive because it:

- is comprised of two drugs that are already approved by the United States Food and Drug Administration ("FDA") as treatments for diseases other than stroke. Thus, we anticipate that development timelines and costs for an additional indication, in our case stroke, could be greatly reduced. Furthermore, these drugs have an established clinical safety profile during regular use and therefore should represent less development risk than completely new compounds;
- provides prospective marketing, manufacturing and development partners in the form of the large international drug companies that are already manufacturing and marketing these agents for other diseases; and
- has been demonstrated by us in animals to be effective when provided peripherally by injection into regions other than the brain. This may allow us to avoid the complications attendant with the competing therapeutic approaches that require intracranial injection or actual transplantation of stem cells.

We believe that these advantages provide us with a key point of differentiation from our competitors.

OUR THERAPEUTIC APPROACH

In animal models, our therapeutic approach has been shown to stimulate and direct the re-growth of functional brain cells from the innate, but dormant, stem cell population that already exists in the adult animal's brain. Successful use of this approach should avoid the difficulties inherent in harvesting, culturing and transplanting stem cells derived from outside sources. SCT is focused on utilizing the stem cells naturally present in the brain.

Our lead therapy, NTx™-265, is based on a novel application of products that are already on the market for other disease indications. We anticipate that this will decrease development times and costs due to the substantial amount of pre-clinical and human clinical trial information that is already available for these drugs.

We have identified a therapeutic regimen that increases the number of neural stem cells that are within the brain. Based on animal studies, these drugs can be administered by a variety of routes including peripheral injection, and such treatment has been observed to result in a functional improvement in the animals. We believe this is because the therapy results in increased production of the specialized brain cells needed to replace lost or damaged neural tissue.

MECHANISM

Our technology makes use of the native neurogenesis process in order to stimulate the regeneration of neural tissue in the brain. Adult neural stem cells remain present in the human brain throughout life, where they are part of the body's normal repair and renewal mechanism. In the brain, these resident neural stem cells can be found in two areas: the hippocampus and in a single cell layer lining the lateral ventricles. We are particularly interested in selectively controlling the adult stem cells located in the ventricles, as these cells have the potential to be mobilized to repair neural tissue in the areas of the brain affected by disorders such as stroke, among others.

RESIDENT STEM CELLS

The process by which the body controls the growth and proliferation of adult neural stem cells is at the heart of how our technology works. In the last 15 years, researchers have made significant strides towards understanding the signals that the body uses to activate these resident neural stem cells. These signals prompt the stem cells to divide and differentiate into the different neural cell types, each of which has a specific and important function. Understanding this mechanism is useful for developing therapeutic approaches to repairing brain tissue. By taking advantage of the body's built-in store of stem cells, and increasing their proliferation and differentiation into functional brain cells using our proprietary approach, we hope to stimulate the brain to repair itself and reverse the course of degenerative neural diseases.

Human brain indicating the ventricles as a single cell layer thick lining where resident neural stem cells are found.

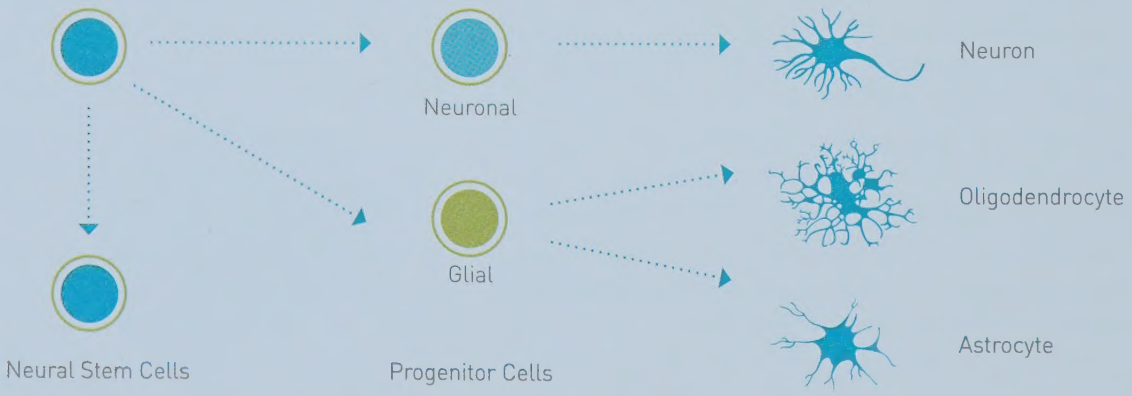
The ventricles (indicated in yellow) are fluid filled cavities located in the central regions of the brain.

SCHEMATIC REPRESENTATION OF THE PROCESS OF NEUROGENESIS

The native neurogenesis promoting mechanism is represented schematically in the diagram below. Initially, an adult neural stem cell present in the brain is stimulated to proliferate into daughter cells. The daughter cells may be identical to the original adult neural stem cell or they may be neural progenitor cells. Neural progenitor cells have the ability to mature and give rise to the specialized cell types of the brain. In the absence of pharmaceutical intervention, the brain generates enough new adult neural stem cells to keep their number approximately constant throughout the individual's life.

When daughter cells give rise to neural progenitor cells, the progenitors may be either neuronal progenitors or glial progenitors. Neuronal progenitors produce increased numbers of neurons, the cells that transmit electrical signals in the brain. Damage to neurons is seen with diseases or disorders such as stroke, Parkinson's disease and Huntington's disease. Glial progenitors, on the other hand, will produce new astrocytes and/or oligodendrocytes. Astrocytes are large, star shaped cells which support the neurons in the brain and spinal cord. Oligodendrocytes function by providing an insulating protective sheath around neurons. Examples of oligodendrocyte-related disorders include multiple sclerosis and spinal cord injury.

SCHEMATIC REPRESENTATION OF THE PROCESS OF NEUROGENESIS

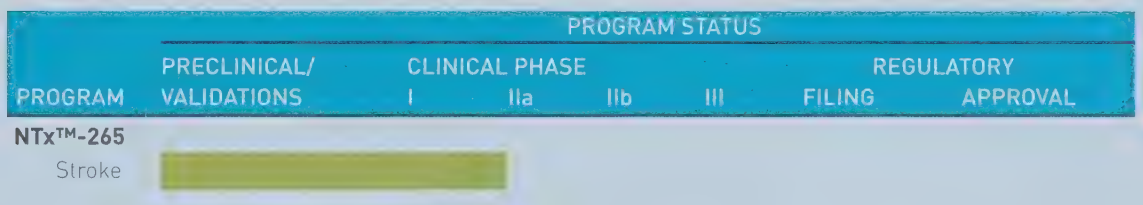


LEAD INDICATION– STROKE

Stroke is the lead disease indication being targeted by the Company's NTx™-265 therapeutic approach. We have chosen stroke as our lead program because it represents both an attractive market opportunity and a potentially viable application for our technology platform.

A human stroke is essentially a "brain attack", in many regards similar to a heart attack, in which blood flow in the brain is blocked or a blood vessel bursts, resulting in a reduction in blood flow to certain regions. This interrupted blood flow causes a reduction in oxygen available to the affected regions of the brain and as a result cells located there subsequently die. Normally, following injury, brain tissue does not spontaneously regenerate and strokes therefore usually cause irreversible damage. As stroke events can lead to a significant number of dead and damaged neuronal cells in the patient's brain, and an associated loss of cognitive function and motor control, they can be extremely serious or fatal to the patient. However, the regeneration of new, functional brain tissue may lead directly to an improvement in stroke patients' neurological function and motor control and thus to improved patient health and quality of life.

CLINICAL DEVELOPMENT PROGRAM



Phase I trials are designed primarily to evaluate drug safety and may be used to evaluate dosing regimens. SCT initiated its Phase I trial in Europe in November 2005 and announced the successful completion in March 2006.

Phase IIa trials are primarily designed to assess a drug's risks and side effects in the target population. SCT is planning a single site Phase IIa study in stroke patients with safety as the endpoint. If approved, this study should commence in mid-2006.

Phase IIb trials are designed to assess a drug's efficacy in the target population, and also to determine optimal dose and regimen. SCT proposes to carry out a multi-center, placebo-controlled, double-blinded Phase IIb study to with primary endpoints examining efficacy. This study, if approved, should commence by early 2007.

Phase III trials typically enroll many more patients than either Phase I or Phase II studies, and take longer to run. The data collected provide further information on safety and efficacy, which will be included in the product's labeling if the drug is approved for marketing. SCT plans to design a Phase III clinical trial once the information from SCT's Phase I and Phase II studies are in hand.

NTx™-265: DRUG FOCUSED THERAPY FOR RECOVERY OF FUNCTION FOLLOWING STROKE

In the second half of 2005, new studies of the effects of NTx™-265 in an animal model of stroke were conducted to provide additional support for clinical development. These studies used the middle cerebral artery occlusion (MCAo) model of stroke in rat as it is widely considered a highly relevant model for screening clinically relevant putative stroke therapies. Study design was focused on using the identical dose scheduling protocol anticipated for clinical administration to support the clinical trial rationale. The results of these studies released March 2006,

showed that NTx™-265 provided substantial and statistically significant recovery of motor function following experimentally induced stroke compared to the placebo treatment.

Clinical development of NTx™-265 progressed rapidly during 2005. In December 2005, SCT, with the assistance of Medicon A/S, conducted a Phase I clinical study to define the concentration of active drug that reaches the brain in human subjects with an intact blood brain barrier, when drug is administered intramuscularly. This study demonstrated that in man, intramuscular administration of our selected proliferative agent gives rise to an increase in drug concentration in the cerebrospinal fluid (CSF) of the brain ventricles. The importance of this finding is that neural stem cells thought to play a role in the regenerative process reside as a lining of the ventricles. Passage of drug expected to act on these stem cells into the CSF thus supports the potential for therapeutic action.

A second clinical study is planned for initiation in mid-2006 which will require submission and approval of an Investigational New Drug (IND) application with the US FDA. The aim of this Phase IIa safety study is to establish that NTx™-265 therapy can be safely administered to patients starting 24-48 hours after stroke onset at concentrations that provide benefit as observed in our preclinical animal studies.

Once a safety profile is established in this first administration of NTx™-265 into stroke patients, SCT anticipates conducting a multi-site proof of principle trial to establish and validate endpoint measures of recovery prior to advancing into phase III pivotal trials.

PATENTS AND PROPRIETARY RIGHTS

SCT is proud of its significant intellectual property holdings, both those obtained through the acquisition of the patent portfolio of Stem Cell Therapeutics Inc. and those developed internally. The Company presently has 38 patent applications in prosecution in various countries in the world, with one patent issued: United States Patent 6,844,312 "Production of Tyrosine Hydroxylase Positive Neurons" The current Intellectual Property portfolio of SCT includes:

Jurisdiction of the Applications	# of Applications
United States	14
Canada	7
Europe	6
Australia	4
Japan	3
Patent Cooperation Treaty PCT/World	2

Selected Published Patent Applications include:

United States Patent Application US20030032181 "Production of Radial Glial cells"

United States Patent Application US20030049838 "Combined Regulation of Neural Cell production"

United States Patent Application US20050245436 "Pheromones and the Leutenizing Hormone for Inducing Proliferation of Neural Stem Cells and Neurogenesis"

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated March 22, 2006

The following information should be read in conjunction with the Corporation's 2005 audited financial statements and notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Where "we", "us", "our", "SCT", "Company" or the "Corporation" is used, it is referring to Stem Cell Therapeutics Corp. unless otherwise indicated.

All amounts are in Canadian dollars, unless otherwise indicated.

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

Certain information contained in management's discussion and analysis of our financial condition and results of our operations constitutes forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

OVERVIEW

Stem Cell Therapeutics Corp. is a biotechnology company focused on the development of a technology platform and intellectual property to selectively induce a patient's own stem cells to proliferate in the brain. ur core technology has been demonstrated to increase the replication of innate adult stem cells when our therapeutic approach is applied to test animals. This fundamental technology will be further developed to create specific disease treatments for stroke and potentially, Huntington's disease, Alzheimer's disease and other neurodegenerative conditions. Our collaborators and researchers have used animals to demonstrate re-growth of brain cells from existing stem cells and functional improvement using our therapeutic approach. Since these tests were completed, we have identified additional agents that may be used for neurogenesis-promoting and from which we have created the NTx™-265 regimen of agents for the treatment of stroke.

As a development stage company, the continuation of SCT's research and development activity and the commercialization of its stem cell related technologies are dependent on the Corporation's ability to complete its research and development programs and finance its cash requirements. The value of our intangible assets could become impaired should our research and development activities decrease significantly or cease.

ACHIEVEMENTS DURING 2005

During 2005 and up to the date of this MD&A, the Company achieved the following significant milestones:

- Successfully closed our Initial Public Offering for gross proceeds of $8,500,000.
- Commenced trading on the TSX-Venture exchange under the ticker symbol SSS.
- Was granted its first United States patent on January 18, 2005.
- Appointed Dr. Alan Moore as Chief Clinical and Regulatory Officer.
- Appointed Dr. Jim DeMesa, President and CEO of Migenix Inc., to the Board of Directors.
- Received approval to initiate, and subsequently commenced, the Phase I clinical trial evaluating the pharmacokinetic profile of the first drug in the NTxTM-265 regimen.

SUBSEQUENT TO THE YEAR END, AND UP TO THE DATE OF THIS MD&A, SCT:

- Appointed Mr. Ian Brown to its Board of Directors.
- Released interim results from a key preclinical study of NTx™-265 and announced the acceptance for poster presentation of these results at the upcoming European Stroke Conference to be held May 16-19, 2006, in Brussels, Belgium.
- Released positive results from its Phase I clinical trial in support of NTx™-265 demonstrating that no drug related adverse events were encountered and that both drugs under study were detected in the cerebrospinal fluid following intramuscular administration.

DEVELOPMENT PROGRAM

Our current therapy under development, NTx™-265, is based on a novel application of drugs that are currently on the market for other indications, not related to central nervous system diseases. This market advantage is anticipated to decrease development timelines and costs due to the substantial body of existing pre-clinical and human clinical trial information that substantiates both the safety of these drugs.

Components of the NTx™-265 therapeutic regimen have already undergone clinical trials by the Company in a Phase I clinical trial that was performed in Denmark, with dosing completed in December 2005. This Phase I clinical trial permitted characterization of the relationship between intramuscular administration, passage into blood and subsequent transport into the brain. The study also generated new evidence that the first drug in the NTx™-265 regimen reaches the brain when administered to human subjects.

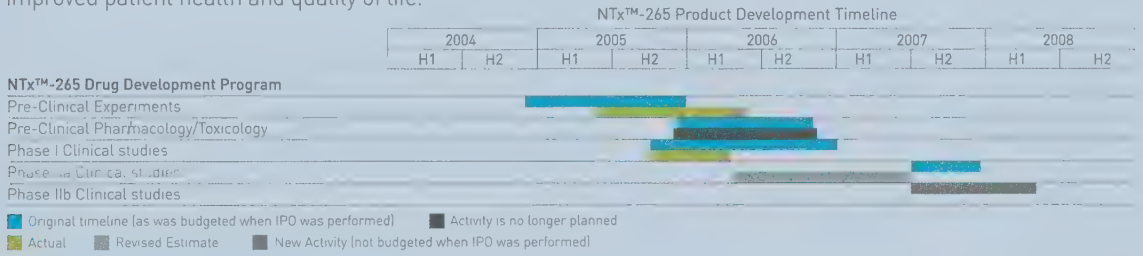
Our next step in the clinical development for NTx™-265 will be a Phase IIa clinical safety study in stroke. The program will primarily focus on safety assessment in stroke patients and is estimated to commence mid-2006 and run into 2007. The cost of developing NTx™-265 through the end of 2006 (including early planning and initiation of a Phase IIb multi-centre efficacy study) is estimated at $3.1 million.

It is a possibility that SCT may discover, in-license, or co-develop new chemical entities (NCE's) with a similar mechanism of action as the on market drugs in the NTx™-265 therapy. In this case the Company may have to undertake studies that will investigate the pharmacokinetics, toxicology profiles, and manufacturing process of these NCE's.

LEAD PROGRAM – STROKE

Stroke is the lead disease indication being targeted by the Company's therapeutic approach. We have chosen stroke as our lead program because it represents both an attractive market opportunity and potentially a viable application for our technology platform.

A human stroke is essentially a heart attack in the brain, in which a reduction in blood flow occurs in certain regions due to a blockage, or bursting of a blood vessel. This interrupted blood flow causes a reduction in oxygen available to affected regions of the brain, and cells located there subsequently die. Normally, following injury, brain tissue does not spontaneously regenerate. Therefore, strokes typically cause irreversible damage. As stroke events can lead to a wide area of dead and damaged neural cells in the patient's brain, and an associated loss of cognitive function and motor control, they can be extremely serious to those surviving the stroke. However, the regeneration of new, functional brain tissue may lead directly to an improvement in stroke patients' motor control and thus to improved patient health and quality of life.



PATENTS AND PROPRIETARY RIGHTS

The Company's NTx™-265 technology was originally developed primarily by Dr. Samuel Weiss at an Alberta-based university. We acquired 100% ownership of this intellectual property from Dr. Weiss and his co-inventors in exchange for 3,636,364 shares in the Company and $2,000 in cash consideration. The Company was formed specifically to commercialize this technology.

The Company currently owns or has rights to 38 patent applications, and one issued United States patent. In part, these comprise fourteen United States, six European and seven Canadian applications.

Some of these applications were filed by the Company (eight) and the remainder was acquired through acquisition of Stem Cell Therapeutics Inc. which occurred on October 4, 2004 (see "Acquisition of Stem Cell Therapeutics Inc."). Our intellectual property portfolio covers several methods and treatments for neurological disorders through the use of approved drugs or other agents in novel combinations. We intend to protect the intellectual property developed by the Company through the filing of patent applications within the appropriate

jurisdictions throughout the world. Additionally, during the term of a research contract with an Alberta-based university and the laboratory of Dr. Weiss, under which we pay consideration to such Alberta-based university, we in turn acquire 100% ownership in any new intellectual property developed by Dr. Weiss and his research group pertaining to the development of novel methods to induce neurogenesis.

Additionally, during the term of a research contract with an Alberta-based university and the laboratory of Dr. Weiss, under which we pay consideration to such Alberta-based university, we in turn acquire 100% ownership in any new intellectual property developed by Dr. Weiss and his research group pertaining to the development of novel methods to induce neurogenesis.

ACQUISITION OF STEM CELL THERAPEUTICS INC.

On October 4, 2004, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell Therapeutics Inc. (the "Stem Cell Shares") from Transition Therapeutics Inc. ("Transition"). Pursuant to this agreement, the Company agreed to pay Transition an aggregate purchase price of $3,500,000 as consideration for the Stem Cell Shares. The purchase price is payable in installments beginning at closing when the amount of $325,000 was paid and thereafter payments are required on the anniversary of closing in each of the following four years in the amounts of $475,000, $400,000, $650,000 and $1,650,000, respectively. Except for the initial payment on closing, all subsequent payments may be made, at the Company's election, either by cash or through the issuance of common shares; provided that the Company may only elect to issue common shares as payment for the final installment if the common shares are at such time listed and posted for trading on a recognized stock exchange. At closing, the certificates representing the Stem Cell Shares were placed in escrow subject to the payment in full of the purchase price, such payment being secured by a security agreement.

Dr. Tony Cruz, the Chief Executive Officer of Transition, was appointed to the Company's board of directors on November 1, 2004 subsequent to the closing of the Stem Cell Therapeutics Inc. acquisition.

On September 30, 2005 we made our second payment in cash to Transition in the amount of $475,000.

FUTURE MILESTONES (2006)

Some selected upcoming milestones for SCT are:

- Initiate NTx™-265 Phase IIa single site, open label safety study in mid-2006;
- Initiate NTx™-265 Phase IIb multi-site, proof of concept study with anticipated completion in 2008; and
- Initiate development of second therapeutic program taking advantage of the Company's intellectual property portfolio.

OVERALL PERFORMANCE

During 2005, the Company continued to advance clinical development of its lead product NTx™-265. SCT had received approval to proceed with a Phase I clinical trial and finished dosing in December 2005. Final data from this clinical trial was released in March of 2006.

The Company's loss for the year ended December 31, 2005 increased by $2,320,287 to $3,270,152 from the loss of $949,865 reported in 2004. The increase in loss is primarily due to increases in research and development costs including our Phase I clinical trial, as well as increases in expanding operations and administration with the required staff for a company in our stage of development. General and administrative expenses also increased due to increased staffing, greater need for office resources, travel and promotional activities, general corporate legal expenses, and increased intellectual property expenses in addition to the effect for operating for a full year in 2005 versus nine months only for 2004. These expenses were partially offset by an increase in interest income. Detailed analysis follows:

- Interest income for 2005 resulted from interest paid on the net cash deposit from our IPO closing, and amounted to $136,076 compared to $3,838 for the nine month period ended December 31, 2004.
- The increase in research and development expenses was primarily the result of an increase in NTx™-265 technology development expenses as the Company prepared for, commenced enrolment, and completed dosing of patients in its Phase I clinical trial. Research and development expenses amounted to $1,031,320 in 2005, compared to $216,123 for the nine month period ended December 31, 2004.
- Management and consulting fees in 2005 totaled $307,190 compared to $107,738 in 2004. This was due to increased staffing levels over a full year of operations.
- The increase in general and administrative expenses was primarily the result of an increase in regulatory costs, travel and promotional activities, and insurance premiums. These expenses totaled $804,486 in 2005 compared to $121,560 for the period nine month ended December 31, 2004.

In upcoming periods, the Company's losses are expected to increase, primarily through increased clinical expenditures as the Company continues the clinical development of the NTx™-265 product and increases research and development expenditures on other products of interest.

SELECTED ANNUAL INFORMATION

The following table is a summary of selected audited financial information of the Company for 2005 and 2004

	December 31, 2005	December 31,2004 [1]
	$	$
Interest income	136,076	3,838
Net loss [2]	3,270,152	949,865
Basic and diluted net loss per common share	0.06	0.08
Total assets	7,929,121	2,972,645
Total long-term liabilities	1,821,914	1,926,564

[1] The 2004 operational information covers the period since inception on March 31, 2004 to December 31, 2004
[2] Net loss before discontinued operations and extraordinary items was equivalent to the net loss for such periods

ANNUAL RESULTS

Year ended December 31, 2005 compared to the period since inception on March 31, 2004 to December 31, 2004.

RESULTS OF OPERATIONS

For the year ended December 31, 2005, the Company recorded a net loss of $3,270,152 ($0.06 per common share) compared to a net loss of $949,865 ($0.08 per common share) for the period since inception on March 31, 2004 to December 31, 2004. This increase is primarily due to the increases in research and development and general and administrative expenses, partially offset by an increase in interest income. Essentially, the 2005 period was one of increased activity and expenditures compared to the 2004 period, which was primarily a time of company start up, and financing activities.

RESEARCH AND DEVELOPMENT

The Corporation's research and development expenses primarily consist of fees paid and accrued to external service providers. All research and development fees are expensed, and total $1,247,443 since inception. Research and development expenses increased to $1,031,320 for the fiscal year ended December 31, 2005 from $216,123 for the nine month period ended December 31, 2004. This increase of $815,197 was primarily the result of an increase in NTx™-265 technology development expenses as the Company prepared for, commenced and completed enrolment for its Phase I trial and prepared for a Phase II clinical trial, additions to the Company's product development team and increased contract research validating the Company's lead program.

The following is an analysis of R&D expenses:

	2005	2004	Cumulative since inception
	$	$	$
Preclinical development	338,903	59,038	397,941
Clinical development	214,583	–	214,583
Research	202,174	147,000	349,174
Salaries and bonuses	172,019	10,085	182,104
Other costs	103,641	–	103,641
Research and development expenses	1,031,320	216,123	1,247,443

We expect our research and development expenses to increase significantly over the next few years as our products enter more advanced clinical trials and we continue to advance other research and development programs. As a result of the risks and uncertainties that are discussed in the "Risk and Uncertainties" section, we are unable to estimate the specific timing and future costs of our research and development programs.

The Corporation has a contract with an Alberta-based university to further develop stem cell related therapies. This contract expired on February 13, 2005 and was renewed on May 1, 2005 for another one-year period. The contract was further amended on August 30, 2005 and the new contract will expire on August 31, 2006.

PROFESSIONAL FEES

Professional fees reflect charges for intellectual property development (i.e., patents), general corporate legal fees with regards to ongoing corporate matters, as well as fees for accounting and audit services. Since inception, these fees total $561,290. Professional fees for the year ended December 31, 2005 increased to $366,894 from $194,396 for the period since inception on March 31, 2004 to December 31, 2004. This increase of $172,498 is primarily due to increased patent filing costs due to the advanced stage of our patent portfolio in the patent review system. The following is an analysis of professional fees charges:

The following is an analysis of professional fees charges:

	2005	2004	Cumulative since inception
	$	$	$
Auditing and accounting fees	57,537	41,500	99,037
Legal fees – Intellectual property	229,435	85,178	314,613
Legal fees – Other	79,922	67,718	147,640
Total professional fees	366,894	194,396	561,290

The Company anticipates that professional fees will increase during the year 2006 as the Company pursues its program to register and maintain its patents portfolio and due to expected increase in accounting and auditing, legal fees, and regulatory costs.

MANAGEMENT AND CONSULTING FEES

Since inception, management and consulting fees total $414,928 and account for all management salaries, benefits and payroll taxes. Management and consulting fees increased to $307,190 for the year ended December 31, 2005 from $107,738 for the period since inception on March 31, 2004 to December 31, 2004. This increase of $199,452 is primarily the result of the Company experiencing the first full year of having a full-time, salaried management team.

GENERAL AND ADMINISTRATION

General and administrative expenses increased to $804,486 for the year ended December 31, 2005 from $121,560 for the period since inception on March 31, 2004 to December 31, 2004. This increase of $682,926 primarily resulted from the increase in salary for staff ($175,607 in 2005 from $0 in 2004), investor relations and business development expenses ($379,247 in 2005 from $19,868 in 2004) as well as costs incurred in routine administrative activities. Since inception, cumulative general and administration fees total $926,046.

The Company anticipates that general and administrative expenses will remain steady during 2006 as the Company has developed a fully functional office and plans to continue its considerable corporate development and investor relations activities.

STOCK OPTIONS

Stock option charges since inception total $489,353. These increased to $314,712 for the year ended December 31, 2005 from $174,641 for the period ending December 31, 2004. This increase of $140,071 primarily resulted from managements efforts to attract management expertise in the clinical development area as well as to strengthen the board of directors and provide compensation packages to management, employees and consultants in line with the market.

The following table summarizes the outstanding granted options under the Corporation's stock option plan as at March 22, 2006. All options have a five year expiry from the date of grant.

Date Granted	Strike Price	Number of Options
November 2004 (i)	$0.25	3,750,000
February 2005	$0.35	800,000
May 2005 (ii)	$0.25	225,000
July 2005	$0.25	175,000
September 2005	$0.25	50,000
January 9, 2006	$0.25	175,000

(i) Options granted in November 2004 totaled 3,925,000. During October, 2005, 175,000 stock options were exercised at $0.25 per stock option with gross proceeds amounting $43,750 and 175,000 common shares issued in exchange

(ii) Options granted in May 2005 totaled 250,000. During March, 2006, 25,000 stock options were exercised at $0.25 per stock option with gross proceeds of $6,250 and 25,000 common shares issued in exchange.

INTELLECTUAL PROPERTY

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 (see "Acquisition of Stem Cell Therapeutics Inc.") was recorded based on the present value of the future payments. It will be amortized over a 10-year period as an intellectual property asset. The deemed interest calculations were based on a rate of 15%. The current and long-term portions of the corresponding purchase liability as well as the deemed interest expense are recorded in the financial statements to the end of December 31, 2005. The Company reviews the valuation of its intellectual property in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). If the result of such review indicates impairment, the Company would assess the fair value of its intellectual property and would record a reduction if the fair value was less than the book value.

SCT was granted its first patent in the United States which provides for a method of treating Parkinson's disease, issued from the Stem Cell Therapeutics Inc. portfolio on January 18, 2005.

The Corporation continues to file patents on all new intellectual property that is developed under the research contract with an Alberta-based university as well as those developed through our contracts with independent contract research organizations.

AMORTIZATION

Total amortization charges since inception for the Company are $337,550. Amortization charges for property and equipment increased to $31,444 for the year ended December 31, 2005 from $4,158 for the period since inception on March 31, 2004 to December 31, 2004. This increase of $27,286 is due to property and equipment additions throughout 2005 and recording amortization for the full year in 2005 versus nine months in 2004.

The Company anticipates that property and equipment amortization charges will remain within the same level during 2006 as there are no plans for major additions to existing property and equipment. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

Amortization charge for intellectual property assets increased to $242,310 for the year ended December 31, 2005 from $59,638 for the period since inception on March 31, 2004 to December 31, 2004. This increase of $182,672 primarily reflects the full year effect of intellectual property assets amortization of intellectual property assets carried forward from previous fiscal period. No intellectual property assets additions occurred during 2005.

The Company anticipates that intellectual property assets amortization charges will remain within the same level during 2006 as there are no plans for major additions to existing intellectual property assets. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

REVENUE

As an early development stage biotechnology company we have not generated any revenues from product sales to date and do not expect to do so for a number of years. This is primarily due to the long time line that is required to develop drugs that are proven in a clinical setting in humans to be safe and useful for treating a particular disease state. Revenues to date include only interest income generated on our cash balances.

Interest income for the year ended December 31, 2005 was $136,076 as compared to $3,838 for the period since inception on March 31, 2004 to December 31, 2004. This increase of $132,238 in interest income primarily resulted from higher cash and short-term investment balances during the year ended December 31, 2005 as compared to the fiscal period ended December 31, 2004. Since inception the total interest earned by the Company amounted to $139,914. In the absence of additional financing, interest income is expected to decrease in fiscal 2006.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of selected quarterly financial information of the Company for each of the most recently completed quarters.

As at and for the three months ended

	2005				2004		
	December	September	June	March	December	September	June
Interest income	29,990	34,247	35,917	35,922	1,889	1,949	Nil
Net loss	1,083,608	865,011	725,848	595,685	681,500	149,244	119,121
Basic & diluted loss per common share	0.02	0.02	0.01	0.01	0.01	0.01	0.01
Total assets	7,929,121	8,473,903	9,511,232	10,081,738	2,972,645	1,093,696	546,357
Cash balance	5,551,187	6,084,348	7,061,821	7,599,790	422,899	962,073	525,087
Total long-term debt[1]	1,821,914	1,824,110	1,937,903	1,925,876	1,926,564	2,801	Nil

[1] Includes capital lease obligations and obligation under share purchase agreement

FOURTH QUARTER

Statement of loss for the three month period ended December 31, 2005 and 2004

	2005 (Unaudited) $	2004 (Unaudited)$
OPERATING EXPENSES		
Research and development costs	**454,273**	111,123
Professional fees	**94,771**	126,425
Management and consulting fees	**112,254**	62,368
General and administration	**241,524**	91,238
Stock option expense	**69,470**	154,641
Deemed interest expense on obligation under share purchase agreement	**70,380**	75,449
Amortization of property and equipment	**10,140**	3,507
Amortization of intellectual property	**60,786**	58,638
Total Operating expenses	**1,113,598**	**683,389**
Interest income	**29,990**	**1,889**
Net loss for the period	**1,083,608**	**681,500**

RESULTS OF OPERATIONS

For the three-month period ended December 31, 2005, the Company's net loss increased to $1,083,608 compared to $681,500 for the three-month period ended December 31, 2004. The significant increases in expenditures are enumerated below:

RESEARCH AND DEVELOPMENT

The Company's research and Development expenses increased to $454,273 for the three-month period ended December 31, 2005 compared to $111,123 for the three-month period ended December 31, 2004. This increase reflects the increase in research and development activities for the fourth quarter of 2005. Analysis of the expenses is as follows:

	2005 (Unaudited) $	2004 (Unaudited)$
Clinical development	90,854	–
Preclinical development	154,974	59,038
Research	75,000	42,000
Salaries and bonuses	72,623	10,085
Other costs	60,822	–
Research and development costs	454,273	111,123

PROFESSIONAL FEES

Professional fees for the three-month period ended December 31, 2005 amounted to $94,771 compared to $126,425 for the three-month period ended December 31, 2004. Analysis of the expenses is as follows:

	2005 (Unaudited) $	2004 (Unaudited)$
Auditing and accounting fees	31,758	31,500
Legal fees – Intellectual property	53,770	85,178
Legal fees – Other	9,243	9,747
Total professional fees	94,771	126,425

MANAGEMENT AND CONSULTING FEES

Management and consulting fees for the three-month period ended December 31, 2005 amounted to $112,254 compared to $62,368 for the three-month period ended December 31, 2004, this increase is mainly caused by management bonus recorded in the fourth quarter of 2005.

GENERAL AND ADMINISTRATION

General and administrative expenses amounted to $241,524 for the three-month period ended December 31, 2005 compared to $91,238 for the three-month period ended December 31, 2004. This increase reflects the increase in the number of general and administrative employees as well as the increase in investor relations activities for the fourth quarter of 2005.

STOCK OPTIONS

Stock option charges for the three-month period ended December 31, 2005 amounted to $69,470 compared to $154,641 for the three-month period ended December 31, 2004. The large expenditure related to the three months ended December 31, 2004 is mainly due to the fact that the Company had been recently established and active directors and management recruitment efforts were ongoing in that period.

AMORTIZATION

Amortization charges for property and equipment increased to $10,140 for the three-month period ended December 31, 2005 compared to $3,507 for the three-month period ended December 31, 2004. This increase primarily reflects the amortization associated with property and equipment additions throughout 2005.

Amortization charge for intellectual property assets mainly remained constant as no intellectual property assets were added during 2005. Charge amounted to $60,786 for the three-month period ended December 31, 2005 compared to $58,638 for the three-month period ended December 31, 2004.

INTEREST INCOME

Interest income for the three-month period ended December 31, 2005 was $29,990 as compared to $1,889 for the three-month period ended December 31, 2004. This increase in interest income primarily resulted from higher cash and short-term investment balances during the fourth quarter of 2005.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The Corporation's primary capital needs are for funds to support our scientific research and development activities including pre clinical and clinical trials and capital expenditures for development of facilities and working capital.

The Company's cash and short-term investments were $5,611,187 at December 31, 2005. The Company currently believes that it has adequate financial resources for anticipated expenditures until mid 2007.

As of December 31, 2005 the working capital (current assets minus current liabilities) for the Corporation was $4,868,735 ($205,142 as of December 31, 2004).

Outstanding shares as of December 31, 2005 totaled 53,361,364 common shares and 6,600,000 class B shares. Outstanding shares as of March 22, 2006 are 53,506,364 common and 6,480,000 class B shares.

The Corporation has raised significant operating capital since its inception on March 31, 2004. For the nine-months ended December 31, 2004, gross proceeds of $1,460,010 were raised from initial subscribers to the Corporation's shares as well as from the exercise of options. On January 6, 2005 the Corporation closed its Initial Public Offering and raised gross proceeds of $8,500,000.

These capital resources have provided the means to advance our lead product NTx™-265 into advanced pre-clinical studies as well as concurrent clinical studies in humans, which were carried out during the fourth quarter of 2005.

COMMITMENTS & CONTINGENCIES

Pursuant to the share purchase agreement from Transition [see "Acquisition of Stem Cell Therapeutics Inc."], royalty payments may become due and payable in accordance with this agreement upon realization of sales or licensing of patent rights from intellectual property in the Stem Cell Therapeutics Inc. portfolio. When the Company realizes sales of products or processes, a royalty of 2% of net sales will become payable to Transition. In addition, if patent rights are licensed, a royalty of 5% of the consideration for such licenses will become payable.

The Corporation entered into a new lease contract for the office space which covers a three-year period starting January 1, 2006. The Corporation's commitment under the new lease contract for the three years is $218,802. We will also incur expenses pursuant to service agreements for the next five years for a total of $1,940 through 2010. In addition, the Corporation will pay $144,000 during 2006 as well as US $249,600 and 38,969 Euro in research, preclinical development, and clinical development costs under separate research and development contracts.

FINANCING ACTIVITIES

The Corporation closed its initial public offering on January 6, 2005 and began trading on the TSX-Venture Exchange under the symbol SSS on January 11, 2005. 34,000,000 common shares were issued from treasury at $0.25 per share. An underwriters' commission of 9% of the aggregate gross proceeds was netted from the offering proceeds, resulting in net proceeds to the company amounting to $7,640,453.

As of March 22, 2006 the gross proceeds raised since inception by the Corporation totaled $10,010,010.

At the time of our Initial Public Offering we expected that approximately $4.7 million of the proceeds would be used over 2005 and 2006 for research and development focusing on our lead product and out of the remaining $1.8 million to $2.8 million will be used for general and administrative expenses including working capital and possible acquisitions of additional technology. Up to December 31, 2005 research and development costs totalled $1,247,443, intellectual property legal expense totalled $314,613 and other administrative expenses totaled $1,340,974.

We currently estimate that cumulative (since inception of the Company) research and development expenditures will increase to $3.1 million, cumulative intellectual property and legal costs will increase to $0.8 million, and cumulative administrative costs will increase to $3.9 million by the end of 2006.

The Corporation's ability to continue operation in the long run is contingent upon its ability to obtain additional sources of funding to finance future operations. Efforts will be required to obtain these additional funds, but there is no assurance that additional financing will be available on acceptable terms, if at all.

INVESTING ACTIVITIES

The Corporation has invested capital into intellectual property development and patent filing activities and basic corporate office infrastructure. Cash is currently in interest bearing Guaranteed Interest Certificates and/or interest-bearing bank accounts.

RELATED PARTY TRANSACTIONS

Pursuant to a sub-lease agreement entered into with LaunchVision Research Inc. (controlled by a former director of the Company), the Corporation incurred rent expense for its premises of $54,470 for the year ended December 31, 2005, which is included in general and administration expense. Rent charges incurred under this agreement for the period ended December 31, 2004 were $19,530. No amount is owing at December 31, 2005. This sublease has expired and the Company entered into a new lease contract with the premises owner.

Dr. Tony Cruz, the Chief Executive Officer of Transition, was appointed to the Company's board of directors on November 1, 2004 subsequent to the closing of the Stem Cell Therapeutics Inc. acquisition.

Related party transactions were measured at exchange amounts and were in the ordinary course of business.

RISKS AND UNCERTAINTIES

Prospects for companies in the biotechnology industry may generally be regarded as uncertain given the nature of the industry. Accordingly, investments in biotechnology companies should be regarded as highly speculative. The realization of our long term potential will be dependent upon the successful development and commercialization of products and product candidates currently under development. We can make no assurance that these products and product candidates will be developed or that they will receive regulatory approval. Our new products and product candidates are currently in the research and development stages, the highest risk stages for a company in the biotechnology industry.

We can make no assurance that our research and development programs will result in commercially viable products and product candidates. To achieve profitable operations, we, alone or with others, must successfully develop, launch and market our products and product candidates. To obtain regulatory approvals for the products and product candidates being developed and to achieve commercial success, clinical trials must demonstrate that the products and product candidates are safe for human and/or animal use and that they demonstrate efficacy. Unsatisfactory results obtained from a particular study relating to a research and development program may cause the Corporation or its collaborators to abandon their commitments to that program. We can make no assurance that any future tests, if undertaken, will yield favorable results.

The Corporation has several patent filings in progress as well as others recently acquired from Stem Cell Therapeutics Inc., only one of which has been issued to date. The Corporation's success is dependent upon its ability to obtain patent grants in relevant jurisdictions; however, there is no guarantee patents will be granted, and, if granted, the Corporation may not be able to successfully defend any subsequent infringements to these patents. The Corporation is currently unaware that it has infringed any existing patents issued to third parties and the Corporation's success will, in part, depend on operating without such infringement. The presence of such patents could severely limit the Corporation's ability to conduct its existing research and/or require

financial resources to defend litigation, which may be in excess of the Corporation's ability to raise such funds. Additionally, the Corporation relies on trade secrets, know how and other proprietary information as well as requiring its employees, consultants, advisors and collaborators to sign confidentiality agreements.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures as of December 31, 2005 and have concluded, based on that evaluation, that the Company's disclosure controls and procedures as of such date provide a reasonable level of assurance that material information relating to the Company is disclosed.

MANAGEMENT'S REPORT

The accompanying financial statements have been prepared by management within reasonable limits of materiality and within the framework of Canadian generally accepted accounting principles and policies, which have been consistently applied.

Management is responsible for the integrity of the financial statements. Financial statements generally include estimates that are necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying financial statements. Financial information presented elsewhere in the Annual Report is consistent with the financials statements. Systems of internal controls are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial purposes.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee. This Committee meets periodically with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review financial statements before they are presented to the Board of Directors for approval.

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the financial statements are presented fairly.

Joseph Tucker, PhD
President and Chief Executive Officer

Mark Wayne, LLB, CFA
Chief Financial Officer

AUDITOR'S REPORT

To the Shareholders of Stem Cell Therapeutics Corp.

We have audited the balance sheet of Stem Cell Therapeutics Corp. as at December 31, 2005 and the statements of operations and deficit and cash flows for the year ended December 31, 2005, the period from inception on March 31, 2004 to December 31, 2004, and the cumulative period from inception on March 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005, the period from inception on March 31, 2004 to December 31, 2004, and the cumulative period from inception on March 31, 2004 in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Calgary, Canada
February 1, 2006

BALANCE SHEET

As at December 31,	2005	2004
ASSETS	$	$
Current		
Cash	5,551,187	422,899
Short-term investment	60,000	40,000
Accounts receivable	24,961	14,151
Prepaid expenses	62,315	78,804
	5,698,463	555,854
Property and equipment, net [Notes 3 and 8]	97,869	45,150
Intellectual property, net [Note 4]	2,129,331	2,371,641
Other non-current assets	3,458	–
	7,929,121	2,972,645
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	638,446	110,402
Current portion of obligation under share purchase agreement [Note 6]	181,746	237,507
Current portion of capital lease obligation [Note 8]	9,536	2,803
	829,728	350,712
Long Term Obligations		
Obligation under share purchase agreement [Note 6]	1,812,854	1,924,221
Capital lease obligation [Note 8]	9,060	2,343
Commitments and contingencies [Note 9]		
Shareholders' equity		
Share capital [Note 11]	9,061,143	1,490,593
Contributed surplus [Note 12]	436,353	154,641
Deficit	(4,220,017)	(949,865)
Total shareholders' equity	**5,277,479**	695,369
	7,929,121	2,972,645

See accompanying notes

On behalf of the Board:

Joseph Tucker, PhD

Ian Brown, Director

STATEMENTS OF LOSS AND DEFICIT

For the Twelve Month Period Ended December 31,	2005	For the period from March 31, 2004 to December 31, 2004	Cumulative from inception on March 31, 2004 to December 31, 2005
	$	$	$
OPERATING EXPENSES			
Research and development costs [Note 10]	1,031,320	216,123	1,247,443
Professional fees	366,894	194,396	561,290
Management and consulting fees	307,190	107,738	414,928
General and administration [Note 5]	804,486	121,560	926,046
Stock option expense	314,712	174,641	489,353
Deemed interest expense on obligation under share purchase agreement	307,872	75,449	383,321
Amortization of property and equipment	31,444	4,158	35,602
Amortization of intellectual property	242,310	59,638	301,948
Total Operating expenses	3,406,228	953,703	4,359,931
Interest income	136,076	3,838	139,914
Net loss for the period	3,270,152	949,865	4,220,017
Deficit beginning of period	949,865	–	–
Deficit, end of period	4,220,017	949,865	4,220,017
Basic and diluted loss per share	0.06	0.08	0.12

See accompanying notes

STATEMENTS OF CASH FLOWS

For the Twelve Month Period Ended December 31,	2005	For the period from March 31, 2004 to December 31, 2004	Cumulative from inception on March 31, 2004 to December 31, 2005
	$	$	$
OPERATING ACTIVITIES			
Net loss for the period	(3,270,152)	(949,865)	(4,220,017)
Add items not involving cash			
Stock option expense	314,712	174,641	489,353
Accrued interest expense on obligation under share purchase agreement (Note 6)	(5,069)	75,449	70,380
Amortization of property and equipment	31,444	4,158	35,602
Amortization of intellectual property	242,310	59,638	301,948
	(2,686,755)	(635,979)	(3,322,734)
Changes in non-cash working capital items			
Accounts receivable	(8,693)	(14,151)	(22,844)
Prepaid expenses	16,489	(78,804)	(62,315)
Accounts payable and accrued liabilities	528,044	110,402	638,446
Cash used in operating activities	**(2,150,915)**	(618,532)	(2,769,447)
INVESTING ACTIVITIES			
Acquisition of property and equipment	(64,875)	(49,308)	(114,183)
Acquisition of intellectual property	–	(327,000)	(327,000)
Short Term Investment	(20,000)	(40,000)	(60,000)
Other non-current assets	(3,458)	–	(3,458)
Cash used in investing activities	**(88,333)**	(416,308)	(504,641)
FINANCING ACTIVITIES			
(Decrease) Increase in capital lease obligation	(7,956)	5,146	(2,810)
Principal settlement of obligation under share purchase agreement (Note 6)	(162,058)	–	(162,058)
Issuance of share capital, net of share issue costs	7,537,550	1,452,593	8,990,143
Net cash provided by financing activities	**7,367,536**	1,457,739	8,825,275
Net increase in cash during the period	**5,128,288**	422,899	5,551,187
Cash, beginning of period	422,899	–	
Cash, end of period	**5,551,187**	422,899	5,551,187
Cash interest paid	**314,016**	78	314,094

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

1. DESCRIPTION OF BUSINESS

Stem Cell Therapeutics Corp. (the "Company") was incorporated under the laws of Alberta on March 31, 2004 with nominal share capital. On October 19, 2004, the Company changed its name from Neurogenesis Biotech Corp. to Stem Cell Therapeutics Corp. The Company was created to further develop and commercialize stem cell related technologies acquired from an Alberta based university. To date, the Company has not earned product revenue and is considered to be in the development stage.

The continuation of the Company's research and development activity and the commercialization of its stem cell related technologies is dependent on the Company's ability to complete its research and development programs, achieve future profitable operations and finance its cash requirements. The outcome of these matters cannot be predicted at this time. The value of the Company's intangible assets could become impaired should its research and development activities change significantly or cease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates.

Short-term investment

Short-term investments, consisting of guaranteed investment certificates, are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of less than two years at the time of purchase. Short-term investments serve as collateral for Company credit facilities. These credit facilities do not exceed the value of the short-term investments. The following table shows details of short-term guaranteed investment certificates held at December 31, 2005:

Value ($)	Maturity date	Interest rate
20,000	April 6, 2006	1.5%
40,000 (Held as collateral for credit facility.)	August 1, 2006	1.3%

The Short-term investments market values at December 31, 2005 approximate their cost.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Computer software	2 years
Office furniture and equipment	5 years

Intellectual property

Intellectual property represents the value of patents as of the acquisition date which is amortized on a straight-line basis over its estimated useful life of 10 years.

Financial instruments

The Company's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable, capital lease obligations and obligation under share purchase agreement. The carrying value of these financial instruments approximates the fair value due to the short-term nature of the instruments.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Foreign denominated transactions are translated at the exchange rates prevailing at the transaction dates.

Impairment or disposal of long-lived assets

The Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the assets and their net recoverable values, which are generally determined based on undiscounted cash flows expected to result from the use and the eventual disposal of the assets. If the carrying value of the assets is not recoverable, an impairment loss is recognized to write down the assets to their fair value.

Income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income or loss in the year that the income tax rates change occurs.

Investment tax credits

The Company recognizes investment tax credits for qualifying research and development costs when the claim is received. The Company accounts for investment tax credits relating to research and development expenses as a reduction of such expenses and those relating to capital expenditures as a reduction of the cost of the asset acquired. No investment tax credits have been recorded in these financial statements as there is no reasonable assurance of realization.

Loss per share

Basic and diluted net loss per share has been calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated in accordance with the treasury stock method. This method assumes that any proceeds from the exercise of stock options would be used to purchase common shares at the average share price during the period.

Research and development

Research costs, other than capital expenditures that have alternative uses, are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. All development costs incurred to date have been expensed.

Stock-based compensation

The Company uses the fair value-based method of accounting for all stock-based compensation. The fair value of the stock options is determined using the Black-Scholes option-pricing model. The compensation expense is recognized in the statement of loss using a straight-line method over the vesting period of the stock options.

3. PROPERTY AND EQUIPMENT

	2005		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	89,795	24,824	64,971
Computer software	12,835	4,528	8,307
Office furniture and equipment	30,065	5,474	24,591
	132,695	34,826	97,869

	2004		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	27,052	1,978	25,074
Computer software	4,721	504	4,217
Office furniture and equipment	17,535	1,676	15,859
	49,308	4,158	45,150

Included in computer equipment are assets under capital lease at a cost of $ 27,008 ($5,603 for 2004), and accumulated amortization of $ 7,316 ($679 for 2004)

4. INTELLECTUAL PROPERTY

	2005		
Intellectual property	Cost	Accumulated amortization	Net book value
	$	$	$
Owned by the Company	20,000	3,511	16,489
Subject to purchase commitments (Note 6)	2,411,279	298,437	2,112,842
	2,431,279	301,948	2,129,331

	2004		
Intellectual property	Cost	Accumulated amortization	Net book value
	$	$	$
Owned by the Company	20,000	1,503	18,497
Subject to purchase commitments (Note 6)	2,411,279	58,135	2,353,144
	2,431,279	59,638	2,371,641

A portion of the intellectual property was acquired during 2004 for $20,000 which represents the fair value of the intellectual property acquired and was paid through the issuance of 3,636,364 Common shares w th a value of $18,000 and a $2,000 cash payment

5. RELATED PARTY TRANSACTIONS

Pursuant to a sub-lease agreement entered into with LaunchVision Research Inc. (controlled by a former director of the Company), the Company incurred rent expense of $54,470 ($19,530 for 2004) which is included in general and administration expense. No amount is owing at December 31, 2005 or December 31, 2004. This transaction was recorded at its exchange amounts, and took place in the normal course of business. This sublease has expired and the Company entered into a new lease contract with the premises owner.

6. OBLIGATION ON SHARE PURCHASE AGREEMENT

On October 4, 2004, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell Therapeutics Inc. ["SCT Inc."] from Transition Therapeutics Inc. ["Transition"], which represents an acquisition of intellectual property. The Company agreed to pay Transition an aggregate purchase price of $3,500,000. The purchase price is payable in installments beginning on closing, October 4, 2004, in the amount of $325,000, and on the anniversary of closing in each of the following four years in the amount of $475,000, $400,000, $650,000 and $1,650,000, respectively. Except for the initial payment, all subsequent payments may be made, at the Company's election, by either cash or common shares; provided that the Company may only elect to issue common shares as payment for the final installment

if the common shares are at such time listed and posted for trading on a recognized stock exchange. On closing, the certificates representing the SCT Inc. shares were placed in escrow subject to the payment in full of the purchase price. Payment for 2005 was made in cash rather than by issuing Company's shares. As part of the share purchase agreement, the Company is subject to commitments for future royalty payments [see note 9[c]].

The Chairman and Chief Executive Officer of Transition was a director of the Company during 2005.
As the Company has use of the intellectual property during the installment period, the commitment to acquire SCT Inc. has been recorded as a liability based on the discounted present value of the purchase installments. The current and long-term portions of the obligation as of December 31, 2004 and December 31, 2005 were calculated as follows:

	2005 $
2006	400,000
2007	650,000
2008	1,650,000
	2,700,000
Less amount representing deemed interest at 15%	775,780
	1,924,220
Less current portion of obligation principal	111,366
Long term portion	1,812,854

Current portion of the obligation under the purchase of SCT Inc. shown on the balance sheet represents the following:

	2005 $	2004 $
Current portion of obligation principal	**111,366**	162,058
Accrued interest on obligation	**70,380**	75,449
Total	**181,746**	237,507

7. INCOME TAXES

The reconciliation of income tax attributable to continuing operations computed at the statutory rate to income tax expenses is as follows:

	2005 $	2004 $
Statutory tax rate	**33.60%**	33.90%
Expected tax recovery	**(1,098,771)**	(322,004)
Add: non-deductible stock option expense	**105,743**	59,203
	(993,028)	(262,801)
Valuation allowance	**993,028**	262,801
Income tax expense	**—**	–

A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized. Significant components of the Company's future tax assets are as follows:

	2005 $	2004 $
Future tax assets		
Non-capital loss carry forwards	**721,006**	171,327
Scientific research and experimental development pool	**419,141**	69,847
Federal investment tax credit carry forwards	**249,489**	41,208
Tax basis of capital and intangible assets in excess of accounting basis	**113,357**	21,627
Total future tax assets	**1,502,993**	304,009
Valuation allowance on future tax assets	**(1,502,993)**	(304,009)
Net future tax assets		–

As at December 31, 2005, the Company has accumulated tax losses for federal and provincial purposes in Canada. The Company also has unclaimed Canadian federal scientific research investment tax credits. The losses and investment tax credits can be used to offset future years' Canadian taxable income, the benefit of which has not been recorded in the accounts. The tax losses and investment tax credits expire as follows:

	Federal $	Investment tax credits $
2014	**505,390**	41,208
2015	**1,650,545**	208,281

8. CAPITAL LEASE OBLIGATION

The Company has leased certain assets under capital lease contracts. The lease obligations have no underlying collateral other than the assets in subject. Imbedded interest rates for the capital lease contracts range between 2.6% and 14.6% and expiry dates for the contracts range between July, 2006 and April, 2008. The following schedule details the Company's obligation under those lease contracts:

	$
2006	9,922
2007	7,514
2008	1,879
	19,315
Less amount representing interest	719
Obligation under capital lease (excluding interest)	18,596
Less current portion	9,536
Non-current of obligation under capital lease (excluding interest)	9,060

9. COMMITMENTS AND CONTINGENCIES

[a] Operating leases

The Company entered into a lease contract for the office space which covers a three year period starting January 1, 2006. Annual costs under this contract are limited to an annual rent charge of $38,780 and annual operating costs estimated to be $34,154, with a total expected cost of $218,802 over the next three years.

[b] Research contracts

Future expected payments under a research contract with an Alberta-based university, which was renewed on May 1, 2005 and amended to conclude on August 31, 2006, are as follows:

	$
2006	144,000
Total	144,000

Future expected payments under a research contract with a contract research organization in the United States (US Dollars) and with research organizations in Europe (Euro), are as follows:

	$ US (1)	€(2)
2006	249,600	38,969
Total	249,600	38,969

(1) Exchange rate for the US Dollar as of December 31, 2005 was 1 USD = 1.1630 CAD
(2) Exchange rate for the Euro as of December 31, 2005 was 1 Euro = 1.3805 CAD

[c] Contingency

Pursuant to the share purchase agreement from Transition (see note 6), royalty payments may become due and payable in accordance with this agreement upon realization of sales or licensing of patent rights from intellectual property in the Stem Cell Therapeutics Inc. portfolio. When the Company realizes sales of products or processes, a royalty of 2% of net sales will become payable to Transition. In addition, if patent rights are licensed, a royalty of 5% of the consideration for such licenses will become payable.

10. RESEARCH AND DEVELOPMENT PROJECTS

The Company is involved in the research and development of therapeutics involved in the stimulation of stem cells for the treatment of neurological diseases. The following costs have been incurred for research and development work performed to December 31, 2005:

	For the Twelve Month Period Ended December 31, 2005	For the period from March 31, 2004 to December 31, 2004	Cumulative from inceptio on March 31,2004 to December 31, 2005
Preclinical development	**338,903**	59,038	397,941
Clinical development	**214,583**	–	214,583
Research	**202,174**	147,000	349,174
Salaries and bonuses	**172,019**	10,085	182,104
Other costs	**103,641**	–	103,641
Research and development costs	**1,031,320**	216,123	1,247,443

11. SHARE CAPITAL

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares, Class B shares and First Preferred shares, in each case without nominal or par value. Common shares are voting, and may receive dividends as declared at the discretion of the directors. Class B shares are non-voting and convertible to common shares at the holder's discretion, on a one-for-one basis. Upon dissolution or wind-up of the Company, Class B shares participate ratably with the Common shares in the distribution of the Company's assets.

[b] Issued and outstanding

	Number of shares #	$
Common		
Formation of Company, March 31, 2004	1,000,000	10
Acquisition of intellectual property, April 1, 2004 (i)	3,636,364	18,000
Proceeds from issuance at $0.025 per share, April 14, 2004	2,000,000	50,000
Proceeds from issuance at $0.10 per share, June 7, 2004	2,550,000	255,000
Proceeds from issuance at $0.15 per share, August 19, 2004	4,000,000	600,000
Proceeds from issuance at $0.25 per share, November 19, 2004	1,000,000	250,000
Conversion of Class B to common, November 19, 2004 (ii)	4,000,000	100,000
Options exercised, November 21, 2004 (iii)	800,000	55,000
	18,986,364	1,328,010
Share Issue Costs	–	(7,417)
Balance, December 31, 2004	**18,986,364**	**1,320,593**
Proceeds from Initial Public Offering at $0.25 per share, January 6, 2005	34,000,000	8,500,000
Conversion of Class B to Common, January 10, 2005(iv)	80,000	2,000
Conversion of Class B to Common, April 1, 2005 (v)	120,000	3,000
Options exercised, October 14, 2005 (vi)	175,000	76,750
	34,375,000	8,581,750
Share Issue Costs	–	(1,006,200)
Balance, December 31, 2005	**53,361,364**	**8,896,143**
Class B		
Proceeds from issuance at $0.025 per share, April 20, 2004	10,800,000	270,000
Conversion of Class B to common, November 19, 2004	(4,000,000)	(100,000)
Balance, December 31, 2004	**6,800,000**	**170,000**
Conversion of Class B to Common, January 10, 2005 (iv)	(80,000)	(2,000)
Conversion of Class B to Common, April 1, 2005 (v)	(120,000)	(3,000)
Balance, December 31, 2005	**6,600,000**	**165,000**
Share Capital, December 31, 2005	**59,961,364**	**9,061,143**

(i) On April 1, 2004 3,636,364 Common shares were issued for the acquisition of intellectual property. The value of the shares was based on the fair value of the intellectual property acquired, $18,000.

(ii) On November 19, 2004, 4,000,000 Class B shares were converted to 4,000,000 Common shares on a one for one basis.

(iii) On November 21, 2004, 600,000 options were exercised at a price of $0.025 and 200,000 options were exercised at a price of $0.10. In addition, contributed surplus of $20,000 was reclassified to share capital upon exercise of the options.

(iv) On January 10, 2005 80,000 Class B shares were converted to 80,000 Common shares on a one for one basis.

(v) On April 1, 2005 120,000 Class B shares were converted to 120,000 Common shares on a one for one basis.

(vi) On October 14, 2005 175,000 options were exercised at a price of $0.25. Contributed surplus of $ 33,250 was reclassified to share capital upon exercise of the options.

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan for the year ended :

	December 31, 2005		December 31, 2004	
	Number of Options	Weighted- average exercise price	Number of Options	Weighted- average exercise price
Outstanding, beginning of period	**3,925,000**	**0.25**	–	–
Granted	**1,275,000**	**0.31**	4,725,000	0.21
Exercised	**175,000**	**0.25**	800,000	0.044
Cancelled	**–**	**–**	–	-
Outstanding, end of period	**5,025,000**	**0.27**	3,925,000	0.25
Exercisable, at end of period	**2,193,750**	**0.26**	3,925,000	0.25

The following table summarizes information about stock options outstanding as at December 31, 2005:

	Options outstanding			Options exercisable	
Range of exercise prices $	Weighted-average Options outstanding #	Weighted-average remaining contractual life	Weighted average exercise price $	Options exercisable #	Weighted average exercise price $
0.25 - 0.35	5,025,000	4.00	0.27	2,193,750	0.26

The fair value of options granted to employees, consultants and directors of the Company during the year ended December 31, 2005 was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

	2005	2004
Risk-free interest rate	**5%**	5%
Volatility	**120%**	100%
Dividend yield	**0%**	0%
Expected life	**5 years**	0.4 - 5 years

Details of stock options granted during 2005 are as follows:

Date Granted	Strike Price	Share Price	Number of Options	Remaining Contractual Life	Calculated per Share	Total Value
Feb-05	$0.35	$0.35	800,000	4.12 years	$0.27	$ 216,000[1]
May-05	$0.25	$0.25	250,000	4.38 years	$0.21	$ 52,500[2]
Jul-05	$0.25	$0.25	175,000	4.55 years	$0.21	$ 36,750[3]
Sep-05	$0.25	$0.25	50,000	4.67 years	$0.21	$ 10,500[4]

(1) 1/36 of the options vest on a monthly basis effective February 28, 2005.

(2) Includes 25,000 options granted to a consultant that vested November 18, 2005, remainder was granted to employees with 1/6 of the options vesting 6 months after grant date and the balance vests over the following 30 months.

(3) Vested on date of grant.

(4) 1/6 of the options vest 6 months after grant date, remainder vests over the following 30 months.

12.CONTRIBUTED SURPLUS

The following table summarizes the change in contributed surplus for the period ending December 31:

	2005 $	2004 $
Balance, beginning of year	**154,641**	–
Stock based compensation expense	**314,712**	174,641
Exercise of stock options	**(33,000)**	(20,000)
Balance, end of year	**436,353**	154,641

13. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ended December 31, 2005 of 52,726,926 (2004 – 11,614,727). The Company has excluded all outstanding stock options and Class B shares from the calculation of diluted loss per share because all such securities are considered anti-dilutive.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

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ANNUAL GENERAL MEETING

BOW VALLEY SQUARE CONFERENCE CENTRE

Northcote Room
3rd Floor Bow Valley Square
205-5th Ave SW
Calgary, AB
on Tuesday, May 9, 2006, at 2:30pm MST

MANAGEMENT TEAM

Joseph Tucker
Mark Wayne
Alan Moore
Brett Schönekess
Allen Davidoff

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